United Nations E/ICEF/1998/AB/L.6

Economic and Social Council

Distr.: General
28 May 1998

Original: English

United Nations Children's Fund
Executive Board
Second regular session 1998
8-11 September 1998
Item 6 of the provisional agenda*

For action

The UNICEF recovery policy

Summary

The present report has been prepared in response to decision 1994/R.3/5 (E/ICEF/1994/13/Rev.1), in which the Executive Board requested the Executive Director to review the application of the interim UNICEF recovery policy and to report thereon to the Board.

The Executive Director *recommends* that the Executive Board approve the recommendation contained in paragraph 40 of the present report.

* E/ICEF/1998/12

98-15065

Contents

		Paragraphs	*Page*
I.	Introduction	1-5	3
II.	UNICEF supplementary funding policy	6-13	4
	A. Integrated planning of country programmes	10-11	4
	B. Support budget and programme budget	12-13	5
III.	Trends of income, expenditure and recovery of support costs	14-18	5
IV.	Analysis of support costs for supplementary-funded programmes	19-38	7
	A. Programme support costs in field offices	20-26	7
	B. Support costs for supplementary-funded programmes at headquarters	27-35	9
	C. Total recovery charges of supplementary-funded programmes in UNICEF	36-38	10
V.	Summary and recommendation	39-40	11

List of tables

1.	Income by different sources	6
2.	Distribution of expenditure by funding source and categories	6
3.	Country and regional office programme support budget breakdown for 1998-1999	8
4.	Summary of support costs for supplementary funding at headquarters	10
5.	Indirect support costs for supplementary funding, 1998-1999	11

Annexes

I.	Major decisions in the history of the UNICEF recovery policy	13
II.	UNICEF income, 1982-1997	16
III.	Office activity-based cost analysis: a country case study	17
IV.	Support costs at headquarters for supplementary-funded programmes	19

I. Introduction

1. The overall supplementary funding policy provides the rationale and the "road map" for operational procedures related to supplementary-funded projects in UNICEF. The recovery policy is a core part of the financial procedures within the supplementary funding policy. Recovery charges are to cover the costs for programme support and management and administration, which the organization must bear to implement supplementary-funded programmes.

2. When reviewing the 1994 review of the UNICEF recovery policy (E/ICEF/1994/AB/L.2), the Advisory Committee on Administrative and Budgetary Questions pointed out that "the basic assumptions for the cost forecast of 'headquarters recovery staff' and 'field-level general operating costs' required for implementation of supplementary-funded programmes" were not included in the report (E/ICEF/1994/AB/L.16, para. 15). The Advisory Committee also pointed out that "a further analysis should be done to enable a determination to be made of which support post costs should be borne by general resources and which by supplementary resources".

3. In decision 1994/R.3/5 (E/ICEF/1994/13/Rev.1), the Executive Board decided that the current 3 per cent recovery policy would be an interim policy that would be reviewed in 1999. At the Board's first regular session of 1998, the Executive Director requested that the Board review the recovery policy at the second regular session in September 1998. The present report reviews the adequacy of recovery charges in the following sequence:

(a) The fundamentals of how supplementary-funded programmes are managed in UNICEF are outlined in chapter II;

(b) The historical and current trends of income, expenditures and recovery of costs due to supplementary-funded projects are presented in chapter III;

(c) A methodology to estimate recovery costs is developed in chapter IV. This is done in the context of the biennial support budget for 1998-1999 using the following three steps:

(i) Definition and estimation of the proportionate costs in field offices' programme support budgets to support supplementary-funded programmes;

(ii) Definition and estimation of the cost of programme support and management and administration from headquarters of supplementary-funded programmes;

(iii) Demonstration of an adequate percentage needed to recover the costs contained in the biennial support budget for 1998-1999.

4. Taking into account the data and reasoning in chapter IV, it is recommended in chapter V that the Executive Board revise the recovery charge from the current 3 per cent to 5 per cent for all new agreements signed after the Board's approval of the recommendation. For that reason, the increase to 5 per cent will have only a limited impact on the 1998-1999 support budget. Subsequent biennial support budget proposals will include analyses on the adequacy of recovery charges for supplementary funding in relation to the support budget proposal.

5. The evolution of recovery cost policies in relation to the nature of supplementary-funded programmes and relevant approvals by the Executive Board is described in annex I.

II. UNICEF supplementary funding policy

6. The major emphasis in UNICEF fund-raising continues to be on increasing contributions to general resources. While donors (governmental and others) are always encouraged to provide general resources, supplementary funds represent an important source of additional income that normally cannot be made available as general resources for various reasons.

7. The purpose of supplementary funding is to expand and strengthen the UNICEF capacity for programme cooperation within existing policies and procedures. The unique feature in the supplementary funding procedure in UNICEF, which is different from that of other agencies, is that the supplementary funding component is approved by the Executive Board as part of the entire country programme. This enables UNICEF efficiently to integrate programme and operational plans for supplementary funding in its planning process.

8. UNICEF does not have a separate support budget structure as do other agencies, as was pointed out in the report on the harmonization of budgets of UNICEF, the United Nations Development Programme (UNDP) and the United Nations Population Fund (UNFPA) (E/ICEF/1997/AB/L.3 and Add.1). Another difference is that while some agencies are primarily funding agencies, UNICEF works as a partner in cooperation with Governments in supporting the programmes. Hence, UNICEF bears all common general operating costs and staff-associated costs, which some other agencies delegate to the executing agency. Owing to these differences, a comparison of recovery charges of different agencies is not straightforward.

9. The integrated usage of resources makes it possible for UNICEF to plan and implement supplementary-funded programmes at considerably less expense and in a more timely manner than if entirely separate structures were to be set up. However, the issue of cross-subsidization has been raised, i.e., the use of general resources income to support supplementary-funded programmes for such indirect costs as staff recruitment, supply procurements, accounting, financial management and donor reporting as well as support costs associated with programme planning and implementation. This is the main reason for setting up a recovery policy.

A. Integrated planning of country programmes

10. The first step in country programme planning is the situation analysis, a joint analysis of past cooperation and the policy priorities of the Government and of UNICEF, which leads to an agreed set of priority problems affecting children and women for which action should be taken.

11. On the basis of the priority problems, the objectives of the programme of cooperation are defined and broad strategies are identified. At this stage, preliminary budgets and possible sources of financing are considered. Given the wide variation in country situations, there are no fixed rules guiding this process. The entire programme for general resources and supplementary funding is submitted to the Executive Board for approval. When the country programme is approved by the Board, the general resources component will start immediately, with the supplementary funding component to be initiated only when supplementary funding is received.

B. Support budget and programme budget

Support budget

12. Both the need for an appropriate office structure and the total estimated number and category of project staff by programme and project are analyzed through the country programme management plan (CPMP). The support budget structure is normally balanced against a consistent volume of programmes. If changes are expected in the volume of supplementary funding, the biennial budget preparation and CPMP process will reflect this, and the support budget will be adjusted accordingly.

Programme budget

13. When planned supplementary-funded projects call for project personnel or other additional direct and identifiable costs, such as travel and the costs of computers for project staff, these costs are included in the project proposals that are submitted to donors and are not included in the recovery charge. The contracts of project personnel are linked to the duration of the supplementary funding. In some cases, the costs of project personnel are proportionately shared between general resources and supplementary funding, or between several donors funding a project. In many cases, different donors finance supplementary-funded projects only in part and often in stages. This necessitates flexible approaches and continuous adjustment, since supplementary funding is continuously being renewed, phased out and replenished with new supplementary funding.

III. Trends of income, expenditure and recovery of support costs

14. A summary of actual income for 1982-1997 broken down by funding sources is shown in annex II. The proportion of income for supplementary-funded programmes increased from 36 per cent in 1982 to 42 per cent in 1992 and remained at around 40 per cent from 1992-1997. The income for the four biennia from 1992-1999 is shown in table 1 below.

15. For 1998-1999, the medium-term plan projected that supplementary funding income will be around 40 per cent of total income. It is expected that the share of private sector contributions to general resources will rise to 60 per cent, which is similar to the level for government contributions. Therefore, the burden of share of recovery charges to cover management and administration and programme support costs are the same for contributions from Governments and private sources.

Table 1
(Income by different sources)
(In millions of United States dollars)

	1992-1993			*1994-1995*			*1996-1997*			*1998-1999 (planned)*		
	GR	*SF*	*GR+SF Total*	*GR*	*SF*	*GR+SF Total*	*GR*	*SF*	*GR+SF Total*	*GR*	*SF*	*GR+SF Total*
Amount												
Government	784	443	1227	715	598	1313	722	479	1201	696	523	1219
Private sector	238	247	485	274	312	586	313	272	585	367	249	b/616
Other income	35	57	92	83	35	118	63	-3 a/	60	60	8	68
Total	1057	747	1804	1072	945	2017	1098	748	1846	1123	780	1903
Percentage												
Government	64%	36%	100%	54%	46%	100%	60%	40%	100%	57%	43%	100%
Private sector	49%	51%	100%	47%	53%	100%	54%	46%	100%	60%	40%	100%
Other income	38%	62%	100%	70%	30%	100%	105%	-5%	100%	88%	12%	100%
Total	59%	41%	100%	53%	47%	100%	59%	41%	100%	59%	41%	100%

GR = general resources
SF = supplementary funds

a/ Including downward currency exchange adjustments.

Table 2
(Distribution of expenditure by funding source and categories)
(In millions of United States dollars)

	1992-1993 a/			*1994-1995 a/*			*1996-1997 a/*			*Planned 1998-1999*		
	GR	*SF*	*GR+SF Total*	*GR*	*SF*	*GR+SF Total*	*GR*	*SF*	*GR+SF Total*	*GR*	*SF*	*GR+SF Total*
Expenditure												
Programme less recovery	753	726	1479	696	828	1524	585	755	1340	629	757	1386
Programme support b/	221	19	240	237	29	266	279	38	317	301	37	338
Management and administration b/	172	15	187	190	24	214	154	20	174	146	18	164
Total	1146	760	1906	1123	881	2004	1018	813	1831	1076	812	1888
Percentage for programme and others												
Programme less recovery	66%	94%	78%	62%	94%	76%	58%	93%	73%	59%	93%	73%
Programme support b/	19%	3%	12%	21%	3%	13%	27%	5%	17%	28%	5%	18%
Management and administration b/	15%	2%	10%	17%	3%	11%	15%	2%	10%	13%	2%	9%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

GR = general resources
SF = supplementary funds

a/ To enable a comparison with the definition in 1998-1999, adjustments were made between programme and programme support. Global funds expenditures for regional offices and headquarters in 1992-1993 and 1994-1995 are adjusted from programme to programme support to be consistent with the figures in 1996-1997 and 1998-1999.

b/ Amounts recovered from supplementary funds and interest earned on supplementary funding cash balances have been distributed to programme support and management and administration.

16. On the expenditure side, table 2 above present the breakdown of expenditure by funding source into programmes, programme support and management and administration for the four biennia from 1992-1999. It shows that for 1998-1999, 93 per cent of supplementary funds are expected to be distributed directly to programme activities, compared to 59 per cent for general resources, given that the current 3 per cent recovery policy continues.

17. The amounts recovered from supplementary funds were $19 million, $31 million, $27 million and $23 million (estimated) respectively for the four biennia. The interest earned on supplementary funding cash balances was $15 million, $22 million, $32 million and $32 million (estimated) respectively for the four biennia. These funding sources are distributed between supplementary-funded programme support and management and administration, totalling $34 million, $53 million, $58 million and $55 million (estimated) for the four biennia. These amounts are distributed proportionately to programme support and to management and administration, as shown in table 2. If the interest income is included, the recovery amount would be around 7 per cent for the biennia 1996-1997 and 1998-1999.

18. Table 2 documents the gradual increase in expenditures in programme support since 1992-1993. The increase reflects the expansion of programme support for programme cooperation from 138 to 161 countries and territories, and changes in where budget categories are charged. General resources have absorbed a larger proportion of the increase in programme support costs. This increase is reflected in table 2, where it is shown that 19 per cent, 21 per cent, 27 per cent and 28 per cent (estimated) of the total general resources expenditures are for programme support costs, respectively, for the four biennia. During the same time period, the percentages of programme support costs in supplementary-funded programmes increased from 3 to 5 per cent.

IV. Analysis of support costs for supplementary-funded programmes

19. The Executive Board has always stressed that a simple and uniform percentage approach is preferable to a more complex and costly accounting system to keep track of support costs in individual projects. It is with this principle in mind that a standard methodology is used, instead of trying to cover all offices and situations. As described below, the costs of supporting supplementary-funded programmes will be estimated in two separate areas: field offices (country and regional offices); and headquarters.

A. Programme support costs in field offices

20. The programme support budget in country offices and regional offices can be broken down into three cost categories as follows:

(a) Substantive support, which covers the costs of UNICEF basic programme and advocacy presence in a country. This would generally cover staff costs related to the posts of the representative, the programme officer, the communication officer and their support staff. Such costs are the prerequisites for the development of any programme of cooperation. Other direct costs related to these activities, such as overtime, temporary assistance, consultancies, official travel and computer equipment are also included here. The substantive costs are significant, because most of the staff in this category are international Professionals;

(b) Operational support, which represents the cost of the operational functions required for the proper execution of the mandated responsibilities of UNICEF in accordance with the rules and regulations. This includes staffing costs associated with posts in operations, finance, administration, personnel and computer support. The operational support costs also include the cost of overtime, official travel and computer equipment related to operational support;

(c) Common general operating costs, which include the operating expenses required for maintaining and running UNICEF offices. They include such expenses as rent, utilities, telecommunications, office supplies and United Nations reimbursement costs, which are not directly identifiable to individual staff.

21. The estimated breakdown of the country and regional office programme support budget in 1998-1999 into these three categories is shown in table 3 below.

Table 3
Country and regional office programme support budget breakdown for 1998-1999
(In millions of United States dollars)

	Amount	*Percentage for supplementary funding*	*Support costs for supplementary funding*
Programme support budget for 1998-1999 for country and regional offices			
Substantive	134	0%	0
Operations	74	30%	22
Common general operating costs	62	40%	25
Total	270		47

22. Most country offices have one representative, one senior programme coordinator and one information/communication officer whose posts represent fixed costs, whether or not the office has supplementary-funded projects. Therefore, these costs are not included in the calculation for recovery charge.

23. To analyze the support costs of the activities carried out in the operations area, a medium-sized country is used as an example in the case study in annex III. In a typical medium-sized office, one operations officer in the operations section supervises four areas: finance, supply, personnel and general administration. This one operations officer is the basic cost, regardless of the level of the supplementary-funded programme, although the size of the operations section varies according to the programme throughput. In the smallest offices, there are only two posts in the operations area, while in the medium-sized office described in annex III, there are two Professional posts in the operations section under the operations officer, who supervises nine support posts.

24. As indicated in the case study in annex III, this office manages total resources of $15 million:

(a) 60 per cent for general resources (44 per cent for the general resources programme and 16 per cent for the general resources support budget);

(b) 40 per cent for the supplementary-funded programme.

25. As illustrated in annex III, it is estimated that close to 30 per cent of an operations section's costs are related to the supplementary-funded programme expenditure. The share of common general operating costs for supplementary funding is calculated using 40 per cent as indicated in paragraph 24 (b) above.

26. Support costs of regional offices supporting country offices are calculated using the same percentages. These percentages are therefore applied to the global figures for country and regional offices to derive a global total of $47 million for 1998-1999 as shown in table 3.

B. Support costs for supplementary-funded programmes at headquarters

27. Following the harmonization of budget presentations of UNDP, UNFPA and UNICEF, all headquarters divisions are classified as performing either programme support or management and administration functions.

Programme support

28. The primary functions of these divisions are related to country programme development and delivery. In UNICEF this group consists of Programme Division, Supply Division, the Office of Emergency Programmes and one-time system costs supporting the same activities.

29. Programme Division and the development of the Programme Manager System (PROMS) are considered as performing core activities for policy development and programme support that would exist regardless of supplementary-funded programmes. Costs of these activities therefore are not included in the recovery analysis.

30. The workload in Supply Division is influenced by the requisitions for supply components for supplementary-funded programmes. The Office of Emergency Programmes, where policy development and emergency coordination take place, is influenced by supplementary-funded programme throughput. Therefore, these two divisions are included in the recovery analysis.

Management and administration

31. Some divisions perform activities and work processes which maintain the identity, direction and well-being of UNICEF. Executive direction and policy development are examples of corporate management functions that are maintained regardless of supplementary-funded activities. Divisions performing these types of activities are not considered in the recovery costing.

32. Some administrative functions are of a variable nature, influenced by the volume of resources entrusted and programme throughput. These functions are performed by the Division of Financial and

Administrative Management, the Division of Human Resources and the Programme Funding Office (PFO). The cost of managing supplementary-funded programmes is estimated for these divisions.

Basic principles

33. No separate structures are set up at UNICEF headquarters to manage supplementary-funded projects. The organization at headquarters is in place to perform functions needed:

(a) The work processes for managing and supporting supplementary-funded programmes are the same as for general resources programmes. The only exception is in PFO, where the work processes for supplementary funds are different and more time-consuming. This is reflected in the workload indicator;

(b) Since the organizational capacity is in place, there is no allocation of indirect costs of divisional or executive management from the divisions which are involved in supplementary-funded programme management.

34. The analysis of support costs for supplementary-funded programmes in headquarters divisions is presented in annex IV. The indicators and data applied fulfill the criteria of being simple and reproducible. In summary, this annex shows that the support costs are as shown in table 4 below:

Table 4
Summary of support costs in supplementary funding at headquarters
(In millions of United States dollars)

	Total budget: 1998-1999	*Support costs for supplementary-funded programmes*
Programme support		
Supply Division	32.1	7.0
Office of Emergency Programmes	6.5	6.4
Management and administration		
DFAM	23.7	7.0
Division of Human Resources	15.1	1.0
Programme Funding Office	5.7	3.4
Total	83.1	24.8

DFAM = Division of Financial and Administrative Management

35. The costs at headquarters to support supplementary-funded programmes are estimated to be $25 million in 1998-1999.

C. Total recovery charges of supplementary-funded programmes in UNICEF

36. On the basis of tables 3 and 4 above, the total support costs for field offices and headquarters for supplementary funding in 1998-1999 are estimated to be $47 million and $25 million, respectively. It is estimated that this cost can be met from the interest income plus a 5 per cent recovery from supplementary funding as shown in table 5 below.

Table 5
Indirect support costs for supplementary funding, 1998-1999
(In millions of United States dollars)

	Field programme support	*HQ programme support and management and administration*	*Total*
Indirect support costs for SF programmes	47	25	72
Less interest income from SF cash balances	7	25	32
Remaining amount to be recovered (lines 1 less line 2)	40	0	40
Total SF expenditure	757		
Percentage (line 3 divided by line 4)	5%		

HQ = headquarters
SF = supplementary funds

37. Since there are no separate structures for supplementary-funded activities, staff in programme support also support supplementary-funded activities. However, there are situations, described below, that require separate support or management services:

(a) Supplementary funding agreements that require an additional system and procedure; some agreements call for special expertise, research and reporting requirements which are not supported by the existing capacity and will require an additional system or expertise;

(b) A sudden influx of large supplementary funds which exceeds the planned throughput.

38. In the former case, if the Executive Director decides to receive the funds, then a higher percentage of charge may be negotiated on a case-by-case basis. In the latter case, which is usually time-bound and short term, and which happens in between the biennial budget preparation process, the structure and costs cannot be absorbed within the approved support budget. Part of the recovery costs will need to be released back to supplementary funds to cover additional programme support costs. When the projects are phased out, then these additional structures and costs will be phased out too.

V. Summary and recommendation

39. The methodology of calculating the recovery rate is closely linked to the basic concept of the supplementary funding policy as specified by the Executive Board in decision 1988/11 (E/ICEF/1988/13, para. A):

> "The major emphasis in UNICEF fund-raising should continue to be on increasing contributions to general resources. At the same time, supplementary funds should be sought as an important form of additional support. The purpose of encouraging supplementary funding is to expand and strengthen UNICEF capacity for programme cooperation within existing policies and procedures".

40. In light of the above analysis and conclusions, the Executive Director recommends the adoption of the following draft decision:

The Executive Board

Decides that:

(a) As implemented in the 1998-1999 biennial support budget, there will be one gross support budget to cover the costs of programme support and management and administration for general resources and supplementary funding;

(b) The interest earned on the supplementary funding cash balances will continue to be an item in the miscellaneous income in general resources;

(c) The methodology described in paragraphs 20-35 of document E/ICEF/1998/AB/L.6 will be used to calculate the programme support and management and administration costs for the supplementary-funded programme; the interest income on the supplementary funding cash balances will finance part of the support costs; and the remaining amounts will be recovered from a percentage chargeable to all supplementary funds contributions. The methodology may only be changed with prior approval of the Executive Board;

(d) All supplementary-funded programmes shall include a separate budget line for "indirect programme support costs" equivalent to the actual recovery rate approved; this line item shall be additional to such direct costs as project staff costs and related travel and computer equipment, which will continue to be included in the specific programme budget. The recovery rate will be applied to actual supplementary-funded programme expenditure for a given budget year;

(e) To cover the support costs to be incurred in the 1999 support budget, 5 per cent, as explained in paragraph 36 of document E/ICEF/1998/AB/L.6, will be used as the recovery rate in the manner described in subparagraphs a-d above;

(f) This rate will be applied to all new agreements to be signed after the Executive Board's approval of the revised policy. A full analysis of recovery charges will be included in subsequent biennial support budget proposals. The percentage may only be changed with prior approval of the Executive Board;

(g) In the case of extra requirements for expertise, research or reporting from donors, additional charges will be negotiated, on a case-by-case basis, to cover the additional costs to set up separate capacity systems and procedures;

(h) In cases where an influx of large supplementary funds exceeding the planned throughput necessitates additional programme support functions to be established, as described in paragraph 37 of document E/ICEF/1998/AB/L.6, part of the recovery will be released to field offices or Supply Division for establishing additional programme support costs for supplementary-funded programmes.

Annex I

Major decisions in the history of the UNICEF recovery policy

1. In 1986, the Executive Director submitted to the Executive Board a comprehensive report on supplementary funding (E/ICEF/1986/L.2). In decision 1986/9 (E/ICEF/1986/12), the Board defined more precisely the nature of posts and overhead costs to be funded through the recovery charge, and decided that supplementary-funded projects should be charged with the cost of staff at headquarters locations whose posts are related exclusively to the administration of supplementary funds and associated costs, as follows:

(a) Travel and per diem costs associated with missions of core staff when these are undertaken for the preparation, monitoring and evaluation of supplementary-funded programmes;

(b) A prorated allocation of general operating costs of field offices administering supplementary-funded programmes.

2. In the same decision, the Board decided that the proportional costs of other core staff involved in the administration of supplementary-funded programmes would remain as an expenditure to be absorbed by the overall administrative and programme support budget. Finally, the Board reconfirmed that UNICEF should continue to credit interest income earned on unexpended supplementary funds contributions to general resources in order to compensate for indirect costs which would be difficult or costly to identify. This was later reconfirmed in the UNICEF Financial Regulations and Rules, which were amended by the Executive Board in decision 1987/13 (E/ICEF/1987/11).

3. In decision 1987/9 (E/ICEF/1987/11), the Executive Board noted the methodology developed by the secretariat to apportion general operating costs to supplementary-funded projects as explained in the budget (E/ICEF/1987/AB/L.1, paras. 32-37). The Board further resolved that the recovery charge should be 6 per cent and should be included as a separate budget item in the presentation of proposals for supplementary funding to donors and that this recovery charge should not be changed without the prior approval of the Board.

4. The Board accepted the secretariat's recommendation that budgets for emergency programmes should not be subject to cost recovery and that contributions from National Committees for UNICEF and non-governmental organizations (NGOs) should be exempt so as to maintain the maximum level of public support for the work of UNICEF. Host countries were also exempted from payment of recovery charges on the funding of their own programmes.

5. Finally, the Executive Board resolved that no posts could be added to this category without the prior approval of the Executive Board and that tables listing all project posts at headquarters locations would be included in all future biennial administrative and programme support budget proposals.

6. In 1991, after four years of experience with the recovery policy, the Board, in decision 1991/29 (E/ICEF/1991/15), requested the Executive Director to review the adequacy of the 6 per cent surcharge.

7. After reviewing the Executive Director's report on the recovery policy (E/ICEF/1992/AB/L.8), the Board in 1992 noted that UNICEF was recovering the full 6 per cent charge from virtually all eligible contributions, but that the nature of supplementary-funded contributions had changed. Since 1990, government contributions for emergency supplementary-funded programmes had shown a sizeable increase with an offsetting relative reduction in funding for non-emergency programmes. With the shift in balance between non-emergency and emergency contributions, of which only the former were subject to a recovery charge, the amounts collected were sufficient only to cover the designated overhead costs on non-emergency supplementary-funded programmes.

8. In 1992, the Executive Board, on an interim basis, decided that the policy of charging a 6 per cent recovery rate to all supplementary-funded projects for non-emergency purposes should be continued, and that the charge should be extended to all emergency supplementary-funded programmes excluding in all cases those programmes funded by National Committees, NGOs and host Governments' contributions to their own programmes.

9. During the Board's consideration of recovery charges at its 1992 session, many delegations expressed the desire for a complete review of the issue and consideration of alternative approaches. The Advisory Committee on Administrative and Budgetary Questions also noted "the significant increase in administrative, personnel and operating costs relating to all supplementary-funded programmes over the last years" and expressed the "urgent need to expand the current recovery policy to meet the additional requirements of UNICEF to finance prorated project posts and field overheads related to the implementation of such programmes" (E/ICEF/1992/AB/L.18, para. 55).

10. The Advisory Committee further expressed the view that "a large number of project posts at headquarters are actually project support posts which should be financed from the administrative and programme support budget". It continued that "the current procedure, especially the classification of project posts related to the 6 per cent recovery on supplementary funds which perform core functions, leads to an underestimation of the actual administrative and programme support costs of UNICEF" (E/ICEF/1992/AB/L.18, para. 30).

11. In 1994, on the basis of the recommendations submitted by the Executive Director (E/ICEF/1994/AB/L.2), the Executive Board decided in decision 1994/R.3/5 (E/ICEF/1994/13/Rev.1) that the current 3 per cent recovery policy would be an interim policy to be reviewed further in 1999. Several procedural changes from the previous 6 per cent recovery policy were made. The 3 per cent recovery rate would be applied to all supplementary-funded projects and used to cover field offices' programme support costs. Finally, all headquarters project posts previously charged to recovery funds were to be charged to the administrative and programme support budget, without any change to contractual status.

12. At the third regular session of 1995, the Executive Board approved the administrative and programme support budget for field offices for the biennium 1996-1997 (decision 1995/31, E/ICEF/1995/9/Rev.1). In this budget, the general operating costs represent the net costs after subtracting the estimated 3 per cent recovery on the basis of the projected supplementary funding expenditure for 1996-1997.

13. At its second regular session of 1996, the Board approved the first integrated budget for headquarters and regional offices for 1996-1997 (decisions 1996/10-1996/13, E/ICEF/1996/12/Rev.1). In this budget, all the posts previously funded from the recovery charge were included in the support

budget and funded from general resources. The interest income received from the unexpended supplementary funding balances continues to be included in the general resources income

14. At the first regular session of 1998, the Executive Board approved the biennial support budget for 1998-1999 (decision 1998/2 (E/ICEF/1998/6 (Part I)). The amounts recovered by the current 3 per cent recovery policy were shown as a credit to the gross budget, thus reducing the funding of the support budget from general resources. The Executive Director also requested at that time that the Board review the recovery policy at the second regular session of 1998.

Annex II

UNICEF income, 1982-1997

(In millions of United States dollars)

	Actual										
	1982	1984	1986	1988	1990	1992	1993	1994	1995	1996	1997
Income											
General resources	243	223	296	437	531	548	509	535	537	551	547
Supplementary funds											
Regular	85	82	127	235	233	186	187	257	311	287	243
Emergencies	50	27	32	39	57	204	170	214	163	106	112
Subtotal	135	109	159	274	290	390	357	471	474	393	355
Total, income	378	332	455	711	821	938	866	1006	1011	944	902
% of SF income	36%	33%	35%	39%	35%	42%	41%	47%	47%	42%	39%

SF = supplementary funding

Annex III

Office activity-based cost analysis: a country case study

Summary	1998-1999		
Country programme			
Biennial general resources programme	$6,640,000	52.5%	44.2%
Biennial supplementary funding programme	$6,000,000	47.5%	40.0%
Total	$12,640,000	100.0%	
Support budget	$2,370,000		15.8%
	$15,010,000		100.0%
Percentage of support budget to total programme		18.8%	

Cost analysis of support budget		Number of posts			
	Total	IP	NP	GS	Total
Substantive support	$930,000	2	1	1	4
Operation support	$759,000	1	2	9	12
Common general operating costs	$681,000				
Support budget	$2,370,000	3	3	10	16
Operating support section					
1 P-4 operations officer	$301,000				
1 NOB accounting officer	$52,000				
1 finance/account clerk	$23,000				
1 finance assistant	$29,000				
1 electronic data processing assistant	$40,000				
Subtotal, finance management	$144,000				
1 NOB administrative/personnel officer	$52,000				
1 administrative/personnel assistant	$40,000				
1 travel clerk	$23,000				
1 telex operator	$11,000				
1 receptionist	$11,000				
2 drivers	$22,000				
Subtotal, administrative/personnel	$159,000				
Total, operations section posts	**$604,000**				
Other staff costs for operations section	$21,000				
Travel	$34,000				
Supplies and equipment	$100,000				
Sub-total, operations	**$155,000**				
Total, operations section costs	**$759,000**				

Annex III (continued)

Office activity-based cost analysis: a country case study

Activity analysis of Operations Section		Supervisor			Units			Total		
		% of activity	$301,000 G	S	% of activity	G	S	Total	G	S
Financial management	% distribution	25.00%	100.00%	0.00%	100.00%	52.53%	47.47%			
	Amount	$75,250	$75,250	$0	$144,000	$75,646	$68,354	$219,250	$150,896	$68,354
Supply and logistics	% distribution	15.00%	30.00%	70.00%	100.00%	30.00%	70.00%			
	Amount	$45,150	$13,545	$31,605				$45,150	$13,545	$31,605
Personnel management	% distribution	30.00%	100.00%	0.00%	100.00%	52.53%	47.47%			
	Amount	$90,300	$90,300	$0	$159,000	$83,525	$75,475	$249,300	$173,825	$75,475
Administration	% distribution	30.00%	100.00%	0.00%						
	Amount	$90,300	$90,300	$0						
Total, Operations Section posts		$301,000	$269,395	$31,605	$303,000	$159,171	$143,829	$604,000	$428,566	$175,434
									70.95%	29.05%
	Other costs							$155,000	$109,980	$45,020
Total, Operations Section costs								$759,000	$538,546	$220,454
									70.95%	29.05%

G = general resources

GS = General Service

IP = International Professional

NOB = National Officer at the (2) level

NP = national Professional

S = supplementary funds

Annex IV

Support costs for supplementary-funded programmes at headquarters

Recovery model definitions:

Cost centre	Lowest level of cost analysis for recovery purpose -- same as lowest budget unit
* Fixed cost	* Activities in unit are not influenced by supplementary-funded programmes
* Variable cost	* Activities in unit are influenced by supplementary-funded programmes
Cost driver	Activity or workload indicator used in model as the major contributor to variable costs

Recovery model outline:

Step 1	Units are identified where workload is influenced by supplementary-funded progammes.
Step 2	Cost drivers for the main processes are identified for each unit.
Step 3	The percentage of supplementary-funded programme activities for each cost driver is calculated.
Step 4	The percentage is applied to unit costs to estimate cost of supplementary-funded activities.
Step 5	Costs of all headquarter supplementary-funded activities are added.

UNICEF posts: budget data 1998-1999

Posts managed by Division of Human Resources in New York:	Posts	
Total	1422	90%
Supplementary-funded programme posts	153	**10%**
	1575	100%

Supply Division purchase orders: actual data 1997

Values in millions of United States dollars

Funding source	Value of purchase orders		Number of purchase orders	
General resources	64.5	21%	10,936	39%
Supplementary funding	153.5	49%	13,638	**48%**
Procurement Services and Other	94.1	30%	3,685	13%
Total	**312.1**	100%	**28,259**	100%

Programme Funding Office: actual data 1996-1997

Values in millions of United States dollars

Income source from Governments	Value	Workload Weighting	Weighted Value	
General resources	721	1	721	23%
Supplementary funding	479	5	2,395	**77%**
Total	**1,200**		**3,116**	100%

Office of Emergency Programmes: actual data 1996-1997

Values in millions of United States dollars

	Value	
Supplementary-funded emergency programmes	218	**98%**
General resources emergency programmes	5	2%
Total	223	100%

Annex IV
(continued)

Support costs for supplementary-funded programmes at headquarters

Division	Cost drivers	Cost allocation percentage	
Supply Division	Number of puchase orders	% supplementary funded purchase orders	*48%*
Office of Emergency Programmes	Funding of emergency programmes	% supplementary-funded emergency programmes	*98%*
DFAM	Value of managed resources	% supplementary funds	*40%*
Divison of Human Resources	Number of managed posts	% supplementary-funded posts	*10%*
Programme Funding Office	Income from Governments	Weighted % of Supplementary Income	*77%*

Programme support

	1998-1999 support budget	Cost centre			SF activity costs	
Supply Division	(millions US dollars)	fixed	variable	allocation	(millions US dollars)	
Administration and systems support	17.6	X				
Technical centre and quality assurance	6.2		X	48%	3.0	
Customer Service Support	2.4		X	48%	1.2	
Warehouse & Logistics	5.9		X	48%	2.9	
	32.1				7.0	22%
Office of Emergency Programmes						
New York	5.2		X	98%	5.1	
Geneva	1.3		X	98%	1.3	
	6.5				6.4	98%

Management and administration

DFAM						
Administration	6.3	X				
Accounts, Finance and Budget Sections	17.4		X	40%	7.0	
	23.7				7.0	29%
Division of Human Resources						
Administration and other	4.5	X				
Human Resources and Career Management	10.6		X	10%	1.0	
	15.1				1.0	7%
Programme Funding Office						
Administration	1.2	X				
Fund-raising and Monitoring Units	4.5		X	77%	3.4	
	5.7				3.4	60%
Grand Total	83.1				24.8	30%

United Nations E/ICEF/1998/AB/L.7

Economic and Social Council

Distr.: Limited
26 May 1998

Original: English

United Nations Children's Fund
Executive Board
Second regular session 1998
8-11 September 1998
Item 9 of the provisional agenda*

For information

Internal audit activities in 1997

Summary

The present report from the Office of Internal Audit (OIA) is the first to be prepared based on the proposal made by the Executive Director to the Executive Board at its third regular session of 1997 that an annual report on internal audit activities be presented to the Board. The report includes the major findings and conclusions of internal audit activities and enables conclusions to be drawn on the strength of the control environment within UNICEF. It shows that UNICEF has allocated increased resources to internal audit activities, which has enabled OIA to increase the number of audits undertaken and to strengthen further the targeting of efforts to priority risk areas.

Priority has been given to audits of field locations. The report shows that the standards of internal control in the offices visited varied from good to weak. It also notes that great efforts to improve controls are being made in many offices. In a number of offices, there had been a significant improvement in the control environment since the last audit. OIA reports that action to implement earlier recommendations generally was good. The report shows that OIA played an active role in helping to secure the improvements required by, for example, participating with management in designing improved practices and procedures and participating in local training and control self-assessment exercises.

* E/ICEF/1998/12.

98-14669

Contents

		Paragraphs	Page
I.	Introduction	1–4	3
II.	Accountability, strategy and resources of the Office of Internal Audit	5–12	3
	A. Accountabilities and oversight role	5	3
	B. Audit strategy and approach	6–11	3
	C. Resources	12	5
III.	Results of work undertaken in 1997	13–51	5
	A. Programme management	15–18	5
	B. Cash assistance to Governments and non-governmental organizations	19–24	5
	C. Sale of greeting cards	25–28	6
	D. Private sector fund-raising	29–30	7
	E. Donor reporting	31	7
	F. Structural issues	32–33	7
	G. Supply	34–39	7
	H. Finance and accounts	40–42	8
	I. Personnel	43	8
	J. Travel	44	9
	K. Administration	45	9
	L. Information systems	46	9
	M. Investigations	47	10
	N. Regional office supervision	48–51	10
IV.	Implementation of Office of Internal Audit recommendations	52–54	11
V.	Standards of internal control	55–57	11

I. Introduction

1. At its third regular session of 1997, the Executive Board welcomed a proposal by the Executive Director to issue an annual report to the Board on internal audit activities. The report was to include major findings and conclusions of audit activities, and would enable conclusions to be drawn on the strength of the control environment within UNICEF. This is the first such report.

2. The mission of the Office of Internal Audit (OIA) is to assist management throughout UNICEF in assessing the responsible use of scarce resources to maximise programmatic output for children and women. In pursuit of this mission, OIA in 1997 continued to devote significant resources to the examination of internal controls, particularly in field offices, and to making recommendations for improvement where necessary. In addition, OIA efforts during 1997 were directed towards assisting UNICEF management in the further development of the Management Excellence Programme (MEP).

3. The MEP began in 1995, its objective being to strengthen accountability at all levels of the organization, to institutionalise best management practices and standards of behaviour for all UNICEF staff, and to make systems improvements to support oversight and control. Its aim has been to establish a stronger management performance culture based on personal accountability, where management standards are applied and followed, and each staff member is held accountable for performance and use of UNICEF resources. The present report shows how OIA has contributed to the achievement of the MEP objectives by working with management, both at headquarters and in the field, to identify the areas where improvements are necessary and the means of achieving them, to assist in staff training and to develop the tools and methodologies required.

4. The work undertaken and the main audit findings and conclusions are dealt with under subject headings, giving examples and in some cases details of the estimated savings identified. The report also shows that during 1997, management had a positive attitude to the audits in terms of both participation in audits and implementation of audit recommendations. The role of OIA in the investigation of suspected irregularities is also described.

II. Accountability, strategy and resources of the Office of Internal Audit

A. Accountabilities and oversight role

5. OIA is accountable to and reports to the Executive Director, who chairs the Audit Committee. The Committee: (a) provides advice on long-term and annual strategies and plans internal audits and investigations; (b) monitors, based on both internal and external audit reports, the adequacy and application of internal controls, and arrangements for securing value for money and measuring performance; (c) reviews cases of presumptive or actual mismanagement, including irregularities and fraud, and assigns follow-up responsibilities; and (d) monitors progress in the implementation of both internal and external audit recommendations. The audited body, i.e., the director of the appropriate headquarters division, the regional director in the case of regional offices, or the UNICEF representative in the case of country offices, is accountable for the implementation of audit recommendations. OIA assists regional offices in exercising their supervisory roles and has developed a database of audit recommendations which is to be made available to regional offices and headquarters divisions.

B. Audit strategy and approach

6. To fulfil its accountabilities, OIA in 1997 developed a multi-year strategy, in consultation with management at headquarters and in field locations. This strategy shapes the content and direction of OIA audit coverage. The major components of the OIA strategy are to:

(a) Address systemic issues in the organization, such as the supervisory role of regional offices, cash assistance, the supply function and the sale of greeting cards, and to consolidate the results of audit field work by proposing or participating in the development of solutions to underlying problems;

(b) Review programmes to identify risks to the achievement of country programme objectives and assess the effectiveness of a UNICEF representative's actions to manage those risks;

(c) Help the organization to move towards a sustainable control environment by providing and participating in the application of control self-assessment techniques;

(d) Review the development of information systems as well as the integrity, accuracy and reliability of those systems;

(e) Cover at least 30 per cent of field locations each year plus the highest-risk headquarters functions;

(f) Follow-up on implementation of previous audit recommendations;

(g) Provide constructive support to management to address critical issues;

(h) Respond to urgent requests for support from management such as unplanned investigatory-type assignments.

7. OIA has identified 109 entities within UNICEF on which it should report, including 95 field locations. Each year, these entities are assessed, using risk assessment criteria to ensure that audits target areas of higher risk. For this purpose, risk is defined as the potential for breakdowns in the organization's internal control framework which could adversely affect UNICEF operations, programmes and relationships with its principal constituents, i.e., the Executive Board and host and donor Governments. The present Audit Risk Model, which was developed in 1997, uses both subjective and quantitative variables as risk attributes. The latter vary between headquarters and country office locations.

8. Having defined the audit universe and identified audit priorities, OIA in 1997 selected the following approaches:

(a) Team assignments (of two or more auditors) covering annually the largest country offices and highest-risk headquarters functions;

(b) Single-auditor assignments covering regional offices, small- to medium-sized field offices and headquarters functions that are selected using risk-assessment criteria;

(c) Reviews of the control environment and participation in and validation of control self-assessments for field offices and headquarters functions;

(d) Providing limited in-house resources for unplanned investigatory- type assignments, contracting for specialist outside expertise as necessary;

(e) Using local public accountants for cost-effective augmentation of the in-house teams, and contracting national and international accounting firms, under careful supervision, to undertake assignments requiring special expertise;

(f) Expanding the programme component of audits, commencing mid-1997;

(g) Examining the development of information systems, the computer environments and preparedness for the new Programme Manager System (PROMS), primarily at field offices, and for the new headquarters financial management system.

9. These approaches incorporated some important developments to meet the objective of assisting management with MEP, including;

(a) The development of such new methodologies as programme audits, involving joint exercises with field staff (see paras. 15-18 below);

(b) Leading country office staff in control self-assessment exercises to identify risks, as well as the country office controls necessary to guard against those risks and any improvements required;

(c) Participation in such joint OIA/management exercises as PROMS training, the preparation of an information technology/information management strategy in a country office and preparation of an action plan for pharmaceutical procurement;

(d) Increasing involvement with headquarters and field staff in developing policies and procedures to deal with some of the issues raised in audits;

(e) Participation of regional operations officers in some country office audits to assist the regional offices in fulfiling their supervisory responsibilities;

(f) Dissemination by OIA of advice on good practices and "do/don't" guidance based on the experience of OIA during audits.

10. OIA now ensures that it has the capacity to respond quickly to unplanned requirements. This is important in the light of increasing requests by offices both at headquarters and the field, that OIA provide help and undertake tasks at short notice. Although this makes planning more difficult, OIA regards the work as important and the increase in such requests as an indicator that its input is welcomed by management.

11. In addition to the Audit Committee, the work of OIA is subject to review by the United Nations Board of Auditors. In planning and carrying out its work, OIA collaborates and liaises with these bodies and other United Nations agencies, in particular their internal auditors (a joint review of common services was undertaken with auditors of the United Nations Development

Programme (UNDP) in one location and more joint efforts are planned).

C. Resources

12. In late 1997, OIA had 15 audit staff, having accelerated recruitment to fill vacancies. Recognizing the importance of this function, management included an additional post in the OIA budget for 1998–1999 (plus a Junior Professional Officer) and recruitment is in progress to fill these posts. Increasingly, emphasis is placed on team work, with senior auditors leading teams including more junior audit staff.

III. Results of work undertaken in 1997

13. In 1997, the work of OIA was based on a strategy to increase the number of audits and strengthen further the targeting of OIA efforts to priority risk areas. During 1997, OIA undertook 39 audits, including examinations at 29 field offices, reaching some 30 per cent of the total number of field locations. OIA therefore met its target of visiting at least 30 per cent of such offices during the year and increased its coverage over 1996, when 30 audits were undertaken (25 in field offices). A total of 1,302 audit recommendations was made in the reports issued. In the responses received as at the end of April 1998 (covering 839 recommendations), some 90 per cent had been accepted by auditees and had been or were being implemented.

14. The following paragraphs describe the work undertaken and the results achieved under a number of subject headings, using examples to illustrate the results. Individual audits did not cover all the aspects listed below. The major areas covered by audits were: (a) programme management; (b) cash assistance to Governments and non-governmental organizations (NGOs);(c) sale of greeting cards; (d) private sector fund-raising; (e) donor reporting; (f) structural issues; (g) supply; (h) finance and accounts; (i) personnel; (j) travel; (k) administration; (l) information systems; (m) investigations; and (n) regional office supervision.

A. Programme management

15. In 1997, OIA introduced a new methodology for the mid-term assessment of country programmes which was successfully used in two countries. A programme audit is implemented to identify the major threats to the achievement of the country programme objectives and to assess the effectiveness of a UNICEF representative's efforts to manage the identified risks. A key feature of the approach is focus group discussions with the country management teams, to identify their own strengths and shortcomings and to develop actions to strengthen further the management of UNICEF responsibilities within a programme of cooperation. The focus group discussions are supplemented by interviews with partners and donors and visits to field activities.

16. The programme audits are reported by management to be highly useful exercises which have helped offices identify and address important programme management issues. Common areas for improvement include a need to:

(a) Define better country programme objectives and the specific UNICEF role within the programmes of cooperation;

(b) Strengthen the understanding and commitment of UNICEF staff to the major strategies of the programme of cooperation;

(c) Establish clearly defined and realistic annual programme and office management priorities and maintain a focus on those priorities through the year;

(d) Strengthen attention to programme monitoring and evaluation through improved programme planning, assigning clear responsibility for the implementation of monitoring and evaluation activities, and training for staff and partners.

17. In both country offices where the new method was used, there were effective country management teams to take the recommendations forward. Implementation requires considerable time and effort, and the first implementation reports are not required until two months after the 1998 mid-term reviews. However, by the end of 1997, important actions had already taken place in both countries, particularly in the definition of clear programme and office management priorities for the coming year, many of which were directed towards the implementation of the key recommendations from the programme audits.

18. Concerning other country office audits, general points that emerged on programme management were the need to: (a) improve collaboration between programme and operations staff; (b) strengthen further tracking of the achievement of programme objectives; and (c) spend more time on, and set targets for, programme monitoring and field visits.

B. Cash assistance to Governments and non-governmental organizations

Cash assistance to Governments

19. In 1997, considerable efforts were made within UNICEF to improve accountability for funds provided by UNICEF to government and NGO counterparts. OIA played a major role in these efforts, drawing on the results of current and past audits. UNICEF procedures pro-

vide that such cash payments be supported by a detailed plan of action plus a detailed financial budget before payment. The counterparts and UNICEF monitor implementation to ensure that the planned activities have taken place. Subsequently, liquidating documents submitted by counterparts should compare actual expenditures against those budgeted earlier, with explanations for significant variances. Many countries have signed agreements requiring them to provide audited financial statements to UNICEF. Audits had flagged the need to obtain evidence to support liquidation of cash assistance on a timely basis and to improve the standard of evidence obtained.

20. In addition to giving priority to the examination of cash assistance during field audits, including joint work on the problems with field office staff and advising those staff on the accountability concepts involved, OIA has held discussions with counterparts, with auditors general in partner countries, and with other organizations providing similar assistance. OIA staff have also worked closely with the Division of Financial and Administrative Management (DFAM) to strengthen arrangements for obtaining audited statements to support liquidations.

21. The main points arising from the OIA examination and discussions were as follows:

(a) The level of unliquidated cash assistance over nine months old was reduced considerably in many offices but was still high in some offices. In a few cases, further assistance was being provided to the counterparts concerned despite the failure to submit evidence to justify liquidation;

(b) OIA found that in many of the country offices, the standard of liquidation statements received was not satisfactory and made recommendations covering the following points:

(i) country offices needed to monitor counterparts and satisfy themselves that the systems of internal control in organizations submitting statements were satisfactory;

(ii) liquidations should be supported by adequate documentation;

(iii) liquidations were not supported by independent audit certificates. In several countries, OIA met the auditors general and established that they would be prepared to provide such certificates;

(c) In one country, further cash assistance was suspended by management in October 1997 pending clearance of outstanding cash assistance. OIA was auditing the country office at the time and worked with local management to constitute teams, including government and contracted local accountants, to go out into the field to collect evidence to liquidate outstanding cash assistance. As a result of these efforts, the provision of cash assistance has now resumed.

22. OIA has consolidated the results of the audit field work and has made proposals to management to contribute to the development of solutions to these problems.

Cash assistance to non-governmental organizations

23. Cash assistance to these counterparts is increasing. The points made above relating to the need for monitoring, assurance on standards of accounting and internal control and satisfactory support for liquidation statements, apply equally to cash assistance to NGOs. In addition, a number of points specific to NGOs arose:

(a) There should be vigorous screening of NGOs before cash assistance is approved;

(b) There was a need to strengthen accountability and for headquarters to consider what arrangements for obtaining audited statements to support liquidations would be appropriate;

(c) NGO agreements should be subject to the same review and assessment requirements as other contracts.

24. A New York headquarters working group, which includes OIA, is reviewing the guidelines on NGOs (which are now referred to as community service organizations).

C. Sale of greeting cards

25. OIA examined the arrangements for the sale of greeting cards during field audits and the arrangements for greeting card procurement. Three audits of greeting card operations were contracted out to local accountants.

26. Generally, there was a need for improved control of greeting card operations in a number of countries. In one country, there were some delays in cashing receipts and inventory discrepancies. OIA recommended enhanced oversight and supervision by the area office in addition to action on the specific points identified. The area office responded positively and acted quickly to strengthen controls and oversight. In another country, controls over cash receipts were not wholly effective and there was a need to undertake inventory checks and review accounting arrangements. The office has acted to strengthen internal controls over sales.

27. An audit of the procurement of greeting cards and products in Geneva completed in May 1997 found that the control environment needed to be strengthened. OIA recommended urgent action, as follows:

(a) In procuring paper, printing services and non-card products, to identify more sources of supply and generate competition;

(b) To overcome quality problems with non-card products;

(c) To ensure effective oversight of contracts by the Contract Review Committee (CRC) and headquarters as appropriate;

(d) To ensure that UNICEF did not meet costs that should be borne by the supplier;

(e) To clarify reporting lines and accountabilities.

28. Management has taken corrective actions, in many cases in the context of restructuring that was already in progress. Management also has undertaken further analysis which has identified the scope for significant financial savings by revising business processes.

D. Private sector fund-raising

29. OIA examined the arrangements for raising funds from the private sector in field offices and for accounting for those funds. The main points arising were:

(a) In a few cases, expenditure on fund-raising was high in relation to revenue secured;

(b) There was scope for improving accounting and control arrangements in some field offices;

(c) There was a need for headquarters to issue guidelines and to strengthen the management of private sector fund-raising in field offices.

30. In response, action was taken to strengthen controls and to issue guidelines to strengthen management of private sector fund-raising.

E. Donor reporting

31. OIA, in undertaking its examinations, is conscious of the need to provide donors with the assurance that their funds are being properly and effectively used. With that in mind, OIA has increased specific coverage of donor reporting and produced audit guidelines on donor reporting and fund-raising to support current headquarters initiatives to improve control of donor contributions, to document best practices and to give appropriate training to field office staff.

F. Structural issues

32. OIA examined structural and staffing issues during visits to some offices and identified scope for significant potential savings in some cases, in particular:

(a) $300,000 per annum from establishing a common services unit to provide support to a country office and a regional office located in the same city;

(b) $164,000 per annum from structural changes in another regional office;

(c) Recommendations related to structural issues with potential for savings or efficiency gains were made and accepted for five other offices.

33. The OIA recommendations were accepted and have been implemented.

G. Supply

Headquarters

34. In light of the concern expressed in 1996 about controls over some aspects of procurement in Supply Division, OIA examined procurement of computers, pharmaceutical products and vaccines in 1997. As noted in paragraph 9(c) above, OIA worked jointly with management in developing an action plan to respond to the recommendations resulting from the examination of pharmaceutical procurement.

35. Numerous recommendations were made as a result of the three audits, such as the need to: (a) strengthen criteria for selecting potential suppliers, (b) enhance the supplier database; (c) search more widely for potential new suppliers to improve competition and reduce prices paid; (d) ensure that CRCs were presented with all relevant information; (e) strengthen quality assurance; (f) monitor raw material prices and strengthen contracting arrangements to help secure price reductions; (g) rotate supply officers; and (h) improve documentation and filing in Supply Division.

36. Supply Division responded very positively to the OIA recommendations and, in parallel with the audits, made major changes to its organizational structure and control systems, in particular:

(a) Clearer accountabilities for technical experts and procurement officers;

(b) Action to improve pre-contract vetting and performance appraisal of contractors;

(c) Stricter contract conditions to penalise poor performance;

(d) Negotiation of long-term agreements;

(e) Introduction of control self-assessment in Supply Division;

(f) Improved customer service and support arrangements;

(g) Improved quality assurance arrangements;

(h) Clearer segregation of duties;

(i) Improved arrangements for examination and documentation of bids and CRC oversight;

(j) Training for staff in fraud awareness.

Field offices

37. OIA also examined local supply and procurement arrangements during visits to field offices. Scope for improvement was identified in a number of locations:

(a) In one country office, OIA made recommendations to improve controls over the procurement and management of supplies and recommended that one logistics base with annual running costs exceeding $25,000 be closed. These recommendations were acted upon swiftly and the base has been closed;

(b) In another country office, local conditions made it very difficult to implement fully the normal procedures providing for competitive bidding before award of contracts. OIA made recommendations to improve the arrangements and agreed with management on revised procedures;

(c) In a third country office, OIA tracked one large procurement of pipes from the initial planning and identification of need to utilization by the end-user. OIA identified scope to strengthen controls at each stage in the process. The country office introduced similar procurement reviews for other major supply items, beginning in 1997, to be made mandatory for all project officers, supported by operations and supply staff, with the aim of ensuring that supplies reached end–users;

(d) In another country office, OIA highlighted the fact that there was no requirement for the office to receive annual reports from counterparts on the use of equipment supplied by UNICEF. OIA discussed with Programme Division the need to establish such a system to safeguard UNICEF– supplied equipment to ensure it was not put to other uses. Programme Division agreed that the matter required further attention.

38. Examination by OIA of both headquarters and local procurement highlighted the need to have effective CRCs. Recommendations made in 1997 included the need for:

(a) All contracts meeting the specified criteria to be submitted to CRCs;

(b) Submissions to contain full details of all relevant facts;

(c) CRC meetings and decisions to be adequately supported and recorded, indicating clearly the factors considered and reasons for decisions;

(d) Conditional CRC recommendations to be reviewed subsequently.

39. OIA has included advice on the effective operation of CRCs in "do/don't" guidance issued to country offices.

H. Finance and accounts

40. Examination by OIA showed that most offices already had sound accounting and financial control or were making efforts to effect improvements and overcome weaknesses, but in some offices there was greater scope for improvement.

41. In one country office, OIA helped management to take initiatives to strengthen control over cash management in sub-offices by reviewing proposed enhancements to systems and procedures and advising on the strengthening of internal controls. OIA also met representatives of the country's central bank to discuss currency restrictions and proposed arrangements to simplify payments made locally. In particular, this reduced the need for making payments in cash, which involved the importation and distribution of large volumes of dollars. The arrangements were subsequently endorsed by UNICEF headquarters.

42. In a number of offices, OIA made recommendations to improve the use and control of bank accounts, e.g., to reduce the number of accounts, reduce charges or tender for selection of banks, obtain more competitive interest rates, or effect prompt reconciliation of balances. In some offices, OIA identified scope to obtain better exchange rates and in one case, the country office acted immediately on the OIA recommendation and obtained exchange rates up to 40 per cent better than those previously obtained.

I. Personnel

43. OIA examined a variety of personnel matters during visits to field offices, including pay and allowances, training, recruitment, consultancies and special service agreements (SSAs). Examples of some of the matters which arose are given below:

(a) In one country office, OIA suggested that with appropriate training, a number of staff could be redeployed to undertake some of the tasks currently carried out by consultants and recommended a review of the office structure and staffing levels. Such a review was carried out for inclusion in the 1998 management plan;

(b) In another country office, although restructuring of the office had been well managed, there was a training requirement and OIA recommended a detailed training plan for all members of staff. This was accepted, to be implemented partially in 1997 and fully in 1998;

(c) A number of audits indicated scope for better control of SSAs, such as the need to adhere to the requirement for SSAs to be duly approved and executed prior to commencement of the assignment, the need to ensure that the services contracted for are actually delivered before payments are made and the need to ensure that field offices do not issue SSAs above their delegated authority. The need for additional guidance on SSAs is currently under consideration with inputs from OIA, which is giving special attention to examination of SSAs in 1998;

(d) There was also scope for improved control of overtime in some offices.

J. Travel

44. OIA examination of travel covered a number of different aspects. Travel will feature more prominently in 1998 audits. Examples of the work undertaken in 1997 are given below:

(a) In June–July 1997, OIA facilitated an exercise being undertaken by a country office on use of control and risk self-assessment. Local travel was one of the three risk areas identified by the country office for the exercise. A number of useful recommendations emerged from the review, including the need for management to develop a system for office-wide travel planning and coordination and to analyse alternatives to travel; the need for management to ensure that trip reports were always made and that better use was subsequently made of them; and the need for better rates and value for money to be negotiated with travel agents;

(b) Numerous recommendations were made on other audits with a view to obtaining more favourable rates and service. For example, OIA showed that discounts could be obtained by booking air travel through the regional office, recommended that travel agency contacts should be placed out for bids, and encouraged coordination with other United Nations agencies. In one location, OIA suggested that a common travel agency might be incorporated in common services for all United Nations agencies, a possibility that was being explored in joint work with UNDP auditors at the time of the OIA visit in September–October 1997.

K. Administration

45. Examination by OIA of administration covered such matters as use and cost of premises, control of expendable property, numbers and use of official vehicles, common services and other support costs. Examples of the matters which arose are described below:

(a) In one country office, OIA noted that although the country office had reduced its occupancy of the office building where it was located, utilization of space still was not optimal. OIA recommended that a more efficient space utilization plan should be submitted to DFAM for review;

(b) In another country office, OIA concluded that office space was in excess of need and that options for moving out of the current premises should be explored;

(c) In a third country office, OIA recommended that the scope for sharing common services with other United Nations agencies should be explored;

(d) In two country offices, OIA identified the need for better records of movements and fuel consumption of the vehicle fleet and better control of their private use in accordance with established rules and procedures.

L. Information systems

46. OIA is a member of the UNICEF System Coordinating Steering Committee and the Systems Working Group. The objective of OIA is to offer advice and review information systems prior to their implementation or revision, as well as after implementation. In addition, OIA considers controls related to computer environments and infrastructure. The volume of such work undertaken in 1997 was constrained by the limited specialist resources available. This situation continues in 1998. Nevertheless, OIA made contributions in a number of areas:

(a) At headquarters, OIA conducted an interim review of control and security issues arising from the introduction of PROMS;

(b) In the first office in the Middle East and North Africa (MENA) region to introduce PROMS, OIA participated in the PROMS training process in order to consider the risks involved and make recommendations to minimize the risks to successful implementation. OIA was concerned about the short time allotted for training and the consequent lack of in-depth training and recommended that the regional management information system team should prepare a work plan, recognizing the additional training required, before expanding PROMS to the rest of the region. Further detailed recommendations were made and action was taken to implement them;

(c) Elsewhere, OIA noted that some, but not all, offices were prepared for PROMS, but there was a need in some offices to ensure that the PROMS timetable was compatible with procurement of computers;

(d) In another country office, OIA led an initiative to develop an information technology/information management strategy;

(e) OIA reviewed the system selection process for the new financial management systems application package for headquarters. OIA was satisfied that the evaluation process was objective and extremely thorough;

(f) OIA also participated in a one-week workshop for the new financial system and is part of an "on call" working group which provided comment on various aspects of the systems required during the year;

(g) OIA led a joint exercise to develop security and back-up procedures for manuals for the new Supply Division systems;

(h) Other work included contributions on information technology governance and business continuity/disaster contingency planning.

M. Investigations

47. Where it is suspected that fraud or irregularities have occurred, OIA is required to undertake an examination to ascertain whether there are matters requiring disciplinary action (where staff members are involved) and possibly, police investigation, and also to determine whether changes in UNICEF practices and procedures are required and to make recommendations accordingly. Where the police are involved, OIA sometimes assists with the collection of evidence from headquarters and local records as appropriate. During 1997, OIA work associated with known or suspected frauds or irregularities was particularly heavy as a result of support to ongoing police investigations of the Kenya country office and Supply Division, which led to the prosecutions previously reported. This work occupied the time of the equivalent of 1 of the 15 OIA audit staff. OIA has also called in specialist outside help and requested assistance from the United Nations Office of Internal Oversight Services when necessary. The work has concentrated on ensuring that appropriate remedial actions have been taken. Examples of the work undertaken are described below:

(a) In the Kenya country office, substantial OIA input was required to examine records and collect evidence in connection with the police investigations of irregularities. OIA also made numerous recommendations to improve internal control and reported to the Executive Board at the end of 1996 that of 67 audit recommendations, 57 had been finalised by the country office and good progress was being made on the other 10. OIA concluded that a strong internal control framework was in place, although it had not been fully tested. Following a further audit in November–December 1997, OIA confirmed that sound internal controls were now in place and in large measure working as intended. Controls over cash assistance had been significantly tightened, although further action was still required on some $1.6 million of cash assistance not cleared from 1995 and earlier years;

(b) Substantial OIA resources were similarly deployed in Supply Division to assist in the collection of information required in connection with police enquiries and to help establish what changes in systems and procedures were required. Late in 1997, Supply Division reported that many improvements were being introduced (see paras. 34–36 above).

N. Regional office supervision

48. MEP clarified the role of the Regional Director as the leader of the regional management team, with increased responsibility for performance monitoring of country offices within the region, including providing support and guidance. This includes monitoring of programme implementation and identifying examples of good practices and areas in need of improvement.

49. Regional offices' responsibilities related to the audit function include: (a) monitoring corrective action taken on audit recommendations and supporting country offices in implementing them; (b) recommending audit priorities; (c) monitoring for high-risk situations and requesting audits where appropriate; (d) participation in selected country office audits; (e) monitoring for possible wrong-doing; and (f) supporting investigations and taking corrective and disciplinary action as required.

50. OIA has worked closely with headquarters and regional offices in the evolution of this role. During the audit of the MENA regional office in April 1997, OIA worked with the Regional Director and his management team, at their request, to review how the office could adapt its capacities to address the new responsibilities, functions and supervisory roles resulting from MEP. OIA has also given advice to other regional offices. The main points arising from this work are:

(a) The regional operations officers in three regions participated in a number of OIA examinations in 1997. OIA is encouraging participation of regional offices more generally in 1998 as a means of assisting them to exercise more effectively their developing monitoring and supervisory roles;

(b) Regional offices have a key role in ensuring that audit recommendations are properly and effectively implemented. OIA recommended as good practice the case of a regional operations officer who was assigned to support a country office and participate in the implementation of audit recommendations.

51. In 1998, OIA will be reviewing how all regional offices have progressed in exercising their supervisory responsibilities.

IV. Implementation of Office of Internal Audit recommendations

52. It is OIA policy to discuss audit recommendations with appropriate headquarters and/or local management before issuing the formal audit report, a copy of which goes to the Executive Director and the United Nations Board of Auditors. Management is usually required to respond to recommendations within two months. During subsequent visits to the offices in question, OIA follows up to ascertain whether the agreed actions arising from the previous audits have been properly implemented.

53. In 1997, OIA found that local offices' actions to implement earlier recommendations were generally good and there was a positive response to current recommendations, e.g.,:

(a) In one country office, of 65 recommendations made in 1995, 56 had been satisfactorily implemented and further action was required on the other nine. The regional operations officer was drafted in to establish procedures required as a result of current OIA recommendations, and a joint programme/operations unit was established at the country office to assess and control risk. OIA regarded these developments as a model for other offices;

(b) In another country office, all 53 recommendations from the previous 1993 audit had been substantially followed up and the country office acted swiftly to implement current OIA recommendations;

(c) In another country office, out of 62 recommendations from the previous audit, 54 had been closed or superseded. Management was working actively on the other eight but these involved other international organizations and could not be resolved quickly;

(d) In a fourth country office, the 1994 audit had noted that administrative costs were heavy. OIA recommendations to centralise and streamline activities had been acted upon, so that by February 1997, staff numbers had reduced from 163 to 118 and programme activities had been rationalized. In 1994, OIA had estimated potential savings at several hundred thousand dollars per annum and much of the action required to secure those savings had been achieved;

(e) Another country office prepared for the OIA visit in 1997 by forming an audit task force and the audit was conducted in a participatory spirit.

54. As indicated in paragraph 10 above, OIA often provided help and undertook tasks at short notice. For example, one large country office specifically requested an audit to help identify the risks involved and propose solutions to managing those risks, in relation to a large and complex programme which at the time involved the procurement and distribution of supplies worth $34 million. Prior to the audit, the country office, with support from the regional office, undertook its own risk assessment exercise which informed the OIA examination. OIA received excellent cooperation from all staff during the audit and made a number of recommendations to improve internal control. Afterwards, management acted quickly to implement key recommendations to a tight time schedule. As a result, programme management and the control environment have been considerably strengthened, with particular emphasis on improved coordination and oversight of sub-offices by the country office.

V. Standards of internal control

55. The standards of internal control in the offices visited by OIA in 1997 varied from good to weak but, as indicated elsewhere in this report, many offices were making great efforts to improve controls as part of the advances being made through the MEP. In a number of offices there had been a significant improvement in the control environment since the last audit. The reasons for weak controls are often related to adverse local conditions and the small size of some sub-offices, which does not permit the normal segregation of duties required for effective control.

56. OIA believes that further improvements in internal control will be dependent on:

(a) Understanding by staff of accountability and control concepts, and the quality of related training;

(b) Enhanced monitoring by regional, area and country offices and dissemination of good practice by regional offices, to bring the weaker offices and sub-offices up to the standard of the best offices.

57. OIA intends to continue to play its part in achieving the improvements required by MEP on the lines outlined in this report and in particular by:

(a) Appropriate recommendations in audit reports;

(b) Participation with management in designing improved practices and procedures;

(c) Contacts with local and regional office staff during field audits and encouragement of their participation in audits;

(d) Participation in headquarters and local training and control assessment exercises;

(e) The issue of good practice and "do/don't" guidance to country and area offices based on the knowl-

edge gained from the audits carried out (the first such guidance has already been issued).